

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00 DODE-00

DOT-00 INR-07 NSAE-00 FAA-00 L-03 SS-15 SSO-00

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O R 071036Z MAY 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 8680

INFO USMISSION USBERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY BERLIN

USMISSION NATO BRUSSELS

AMEMBASSY MOSCOW

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FOR EB/AO/AN AND EUR/CE

E.O. 11652: N/A

TAGS: EAIR, PFOR, GW, WB, US, UK, FR

SUBJECT: CIVAIR: IGS FARE INCREASE

REF: BONN 7403

1. SUMMARY: DURING PROLONGED MAY 6 BCATAG MEETING
CAA'S ENCOUNTERED STRONG GERMAN OPPOSITION TO IMPLEMENT-
ATION OF THE PROPOSED FARE INCREASE. BY MEETING'S CON-
CLUSION, HOWEVER, GERMANS ACKNOWLEDGED SOME INCREASE
IN IGS AIRLINE REVENUES PROBABLY JUSTIFIED AND PRESSED
FOR A "COMPROMISE SOLUTION" WHICH WOULD PERMIT THE
IMPOSITION OF A LOWER FARE INCREASE. IN ACCORDANCE WITH
PREVIOUSLY AGREED POSITION, CAA'S SAID THAT IN THE
ABSENCE OF ANY ALTERNATIVE PROPOSAL TO INCREASE AIRLINE
REVENUES TO THE REQUIRED LEVEL THEY HAD NO ALTERNATIVE
BUT TO RECOMMEND THAT THE FULL FARE INCREASE BE IMPLE-
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MENTED. WE BELIEVE WE SHOULD NOW MOVE RAPIDLY TO INFORM

FRG FOREIGN OFFICE REP THAT 9.6 PERCENT FARE INCREASE (TO THE AIRLINES) SHOULD BE INTRODUCED AS SOON AFTER MAY 15 AS PRACTICABLE. ACTION REQUESTED: DEPT'S INSTRUCTIONS. END SUMMARY.

2. DURING LENGTHY MAY 6 BCATAG MEETING (A RECORD THREE AND ONE-HALF HOURS) FRG/SENAT REPS SUBJECTED CAA AIRFARE JUSTIFICATION TO A RIGOROUS CROSS-EXAMINATION FOCUSING ON DISCREPANCIES BETWEEN PRESENT FINANCIAL DATA AND THAT PROVIDED IN SUPPORT OF THE ROUTE DIVISION. THRUST OF GERMAN ARGUMENTATION ALSO CENTERED ON PRE-SUMPTION THAT SAVINGS FROM ROUTE DIVISION AND RATIONALIZATION HAD BEEN UNDERSTATED WHILE AIRLINE REVENUE PROJECTIONS WERE OVERLY PESSIMISTIC IN VIEW OF MOUNTING EVIDENCE THAT DECLINING TREND IN PASSENGER VOLUME WAS MODERATING.

3. THE CAA'S EXPLAINED - TO APPARENT GERMAN SATISFACTION - THAT PRINCIPLE CAUSE OF STATISTICAL INCONSISTENCIES STEMMED FROM SUBSTANTIAL CHANGES IN EXCHANGE RATES EXPERIENCED OVER PAST 12 MONTHS. SMALLER DISCREPANCIES WERE CLARIFIED BY A DESCRIPTION OF CAA STATISTICAL METHODOLOGY WHICH REQUIRED A MEASURE OF ARBITRARY ALLOCATIONS TO BCATAG EXPENDITURE CATEGORIES. BRITISH CAA RECALLED OUR CAVEAT INCLUDED IN ROUTE DIVISION PRESENTATION THAT ESTIMATES OF THE ROUTE DIVISION'S FINANCIAL IMPACT COULD ONLY BE ILLUSTRATIVE AND IN NO WAY COMMITTED THE AIRLINES TO ACHIEVING SET TARGETS.

4. REGARDING GERMAN CONTENTIONS REGARDING LEVEL OF ROUTE DIVISION SAVINGS AND OF FUTURE PASSENGER VOLUME TRENDS EMB CAA STATED THAT WE COULD SEE NO COGENT BASIS FOR SUBSTITUTING BCATAG'S BUREAUCRATIC JUDGMENT FOR THAT OF EXPERT AIRLINE FORECASTERS. THE RECORD DEMONSTRATED THAT IN EVERY INSTANCE OVER PAST FOUR YEARS, AIRLINE ESTIMATES HAD TURNED OUT TO BE OVERLY OPTIMISTIC WHERE THEY DIFFERED MATERIALLY FROM ACTUAL RESULTS. MOREOVER, ALLIES HAD BEEN REVIEWING AIRLINE DATA IN SUPPORT OF FARE INCREASE APPLICATIONS FOR OVER A YEAR AND HAD NOTED NO ATTEMPT BY THE CARRIERS TO MANIPULATE THEIR FIGURES.

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ALLIED AUTHORITIES WERE CONVINCED CURRENT FIGURES REFLECTED HONEST ATTEMPT BY THE CARRIERS TO REFLECT THEIR PRESENT AND SHORT TERM FINANCIAL SITUATION. FARE TRENDS IN WESTERN EUROPE AND MOST IMPORTANTLY WITHIN THE FRG SHOWED THAT THE COST OF PROVIDING AIR SERVICES HAD RISEN SUBSTANTIALLY IN THE PAST 18 MONTHS. MOREOVER, THE PRICE OF TRAIN TRAVEL BETWEEN BERLIN AND THE FRG HAD RISEN BY 16 PERCENT IN THE LAST YEAR, AND EVEN

WEST BERLIN BUS FARES HAD RECENTLY ADVANCED BY AS MUCH AS 70 PERCENT. IT THEREFORE STRUCK US AS ILLOGICAL TO ARGUE THAT THE IGS HAD SOMEHOW BEEN SPARED THE ECONOMIC PRESSURES LEADING TO THESE PRICE INCREASES.

5. CAA'S BORE DOWN HARD ON COMPARISON WITH LUFTHANSA, POINTING OUT THAT MANY IGS EMPLOYEES BELONGED TO THE SAME LABOR UNION AS LUFTHANSA'S PERSONNEL AND THAT FUEL

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AND OTHER IMPORTANT SUPPLIES WERE PURCHASED FROM THE SAME SOURCES. EVEN IF ONE ACCEPTED EARLIER GERMAN ARGUMENTS THAT LUFTHANSA'S CASE WAS DIFFERENT BECAUSE OF THE LARGE NUMBER OF PRO-RATED PASSENGERS USING THE FRG'S DOMESTIC CARRIER, WE FOUND IT DIFFICULT TO IMAGINE THAT THE NUMBER OF PRO-RATED PASSENGERS INCREASED SO MARKEDLY IN THE FALL OF 1975 SO THAT IT WAS NECESSARY TO GRANT

LUFTHANSA A FARE INCREASE. THE PRESENT PER MILE REVENUE GAP BETWEEN LUFTHANSA AND THE IGS AT 43 PERCENT SIMPLY COULD NOT BE DEFENDED. FOR THE FIRST TIME THE GERMAN REPS SEEMED TO ACKNOWLEDGE TACITLY THAT ABOVE COMPARISONS HAD SOME VALIDITY. DURING PROLONGED AND FREQUENTLY SPIRITED EXCHANGE OF VIEWS, CAA'S CITED EXCELLENT RECORD OF THE IGS CARRIERS IN PROVIDING BERLIN WITH A HIGH LEVEL OF AIR SERVICE, AND STRESSED THAT THE AIRLINES MUST RECEIVE A FAIR RETURN FOR THEIR EFFORTS. CAA'S ALSO DREW ATTENTION TO THE STEPS AIRLINES AND ALLIED GOVERN- LIMITED OFFICIAL USE

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MENTS WERE TAKING TO IMPROVE THE IGS TO THE EXTENT POSSIBLE, NOTING IN PARTICULAR THE EXCURSION FARE PACKAGE TO GO INTO EFFECT SIMULTANEOUSLY WITH THE FARE INCREASE.

6. DURING THE SUMMING UP, CHIEF GERMAN REP JIRKA SAID GERMANS REMAINED UNCONVINCED THAT AIRLINE DATA SUPPORTED A FULL 9.6 PERCENT INCREASE BUT COULD ACCEPT THAT SOME INCREASE IN AIRLINE REVENUES WAS JUSTIFIED. HE ASKED IF CAA'S COULD SUGGEST A COMPROMISE SOLUTION. EMB CAA RESPONDED THAT IN THE ABSENCE OF ANY CONVINCING EVIDENCE THAT FARE INCREASE WAS NOT FULLY JUSTIFIED AND OF ANY PROPOSAL TO INCREASE AIRLINE REVENUES BY OTHER MEANS THE CAA'S HAD NO ALTERNATIVE BUT TO RECOMMEND TO THEIR GOVERNMENTS THAT THE FULL FARE INCREASE BE IMPLEMENTED. JIRKA SAID HE HOPED IT WOULD BE POSSIBLE TO AVOID GIVING THE PUBLIC THE IMPRESSION THAT THE FARE INCREASE HAD BEEN IMPOSED BY THE ALLIES. SENAT REP ADDED AS A POSTSCRIPT HE WOULD BE GRATEFUL FOR ANY ADDITIONAL ARGUMENTATION AS TO WHY ROUTE SWAP SAVINGS WERE NOT AS GREAT AS GERMANS HAD HOPED. CAA'S PROMISED TO INFORM JIRKA AS SOON AS FINAL INSTRUCTIONS WERE RECEIVED FROM CAPITALS. THE MEETING ADJOURNED IN A FRIENDLY ATMOSPHERE.

7. COMMENT: JIRKA STRUCK AN UNEXPECTED NOTE BY ASKING THAT FARE INCREASE NOT APPEAR AS A DECISION IMPOSED BY THE ALLIES. THE OBVIOUS ANSWER IS, OF COURSE, FOR THE GERMAN SIDE TO JOIN IN THE DRAFTING OF A JOINT PRESS GUIDANCE PAPER INDICATING FRG CONCURRENCE IN THE NEED FOR A FARE INCREASE. WE (AND THE BRITISH AND FRENCH) BELIEVE IT IMPORLANT THAT WE NOW MOVE SWIFTLY TO INFORM JIRKA THAT THE FARE INCREASE WILL BE IMPLEMENTED AS SOON AFTER MAY 15 AS PRACTICABLE. WE WILL THEN HAVE SEVERAL DAYS TO WORK OUT A FINAL BCATAG POSITION WITH JIRKA. (WE DOUBT AIRLINES COULD MOVE TO INTRODUCE THE NEW FARE SCHEDULE IN LESS THAN A WEEK.) ACTION REQUESTED: DEPARTMENT'S INSTRUCTIONS. WE RECOMMEND INSTRUCTIONS PROVIDE FOR IMPLEMENTATION AS NOTED ABOVE.

BRITISH AND FRENCH HAVE REQUESTED PARALLEL INSTRUCTIONS.
HILLENBRAND

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